



February 5, 2007

To the Management of the
Town of Harpswell, Maine:

In planning and performing our audit of the financial statements of the Town of Harpswell, Maine (the Town) for the year ended December 31, 2006, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The attached schedule summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated February 5, 2007, on the basic financial statements of the Town.

The accompanying comments and recommendations are intended solely for the information and use of management and others within the organization and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the cooperation and assistance we received from the officials and employees of the Town of Harpswell during the course of our audit. We will review the status of these comments during our next audit engagement. We have already discussed them with various Town personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

TOWN OF HARPSWELL, MAINE
Schedule of Comments
December 31, 2006

Journal Entries

The Town's current software package allows for password use in entering certain accounting modules within the system. Controls should be set in the software itself such that certain individual cannot even access certain functional areas. We suggest that no one other than the bookkeeper have access to the general ledger system to actually prepare and post general journal entries. We understand that the Town is looking into how it can password protect the module to accomplish this goal.

In addition, it should be noted that the process of making journal entries to correct errors or to post unusual transactions is a common bookkeeping function. Based on our review, it appears the use of journal entries is appropriate. However, because journal entries can be a way in which management can override their own internal control systems, it is imperative that journal entries be reviewed and approved by someone other than the preparer. We understand that current practice includes a review process; however it is often done after journal entries have already been posted.

Management's response:

The Town has contacted its accounting system provider and has been assured that the journal entry module of the accounting system can be password protected without additional cost. The Bookkeeper will put this protection in place. The Treasurer, who has no access to the accounting system, will hold the journal entry password.

In order to ensure that journal entries are reviewed prior to posting, such postings will be made on a regular schedule, i.e. in connection with weekly warrants. The Bookkeeper will provide the direct entries to the Treasurer for authorization weekly and will post them shortly thereafter.

Policy Manual

It was noted that the Town has a number of good policies, all of which are maintained in a policy notebook. We did note, however, the absence of at least one important policy which we feel the Town should consider adopting – an investment policy. In reviewing current deposit and investment practices, we have no immediate concerns; however, a written policy will provide guidance to future administrations. The policy could also address limits on such things as credit risk tolerance, concentration limitations, and interest rate risk (maturities). These risks are now required to be disclosed in the Town's financial statements due to recent guidance in governmental accounting standards #40.

Management's response:

The Treasurer will prepare a draft investment policy for review and consideration by the Board of Selectmen.

Old Outstanding Checks

During our audit, we noted that the bank statement reconciliation included old outstanding checks totaling approximately \$7,000, some of which date back to 2000. The Town should first investigate to determine if these checks are duplicated transactions. If this is the case, they should be voided. If they are valid outstanding checks, they would then be subject to the State of Maine abandoned property laws. We recommend that the Town annually review whether the abandoned property laws apply to old checks from the bank account reconciliation. These steps will limit the complexity of the reconciliation and ensures compliance with State law.

Management's response:

We believe that substantially all of the old outstanding checks included in the bank reconciliation are the result of voided checks not removed from the outstanding list. We will verify this and delete those for which we can verify that a replacement check was issued. In instances where replacement cannot be verified, we will follow the State's abandoned property procedure.

TOWN OF HARPSWELL, MAINE
Schedule of Comments, Continued
December 31, 2006

Liability Accounts

During our audit of accrued liabilities, we noted that there are general ledger liability accounts that have unreconciled balances. These balances are not material to the financial statements individually, or in the aggregate; however, we recommend that the Town review these balances monthly, adjusting the accounting records as necessary to reflect true liabilities.

Management's response:

The Deputy Town Administrator and the Treasurer will analyze the 2007 opening balances of all liability accounts and propose entries to write-off any unsupported balances. To facilitate ongoing review, the Bookkeeper will include account distribution reports for each liability account when month-end reports are prepared.

Capital Assets Records

GASB 34 requires municipalities to keep and maintain accurate capital asset listings and depreciation schedules. During the audit, we noted that historically, the Town's Treasurer has maintained these schedules for the Town. As a result, they are updated once a year as part of the audit process, which can be a time-consuming undertaking. In addition, it appears that the capital assets used by the community broadcasting station (HCBC) have not been updated since the inception of the capital asset list, in 2004. The major assets used by HCBC are owned by the Town, and in addition, it is our understanding that newly purchased HCBC assets are the Town's property to the extent that they are purchased with Town provided funding. We recommend that the Town update all its capital asset records (including HCBC) on a regular basis during the year, as items are purchased and constructed, or disposed.

Additionally, the Town's capital assets are currently maintained on an Excel spreadsheet, which can be cumbersome. Alternatively, the Town could consider an integrated accounting system that includes a capital asset accounting module, or a separate (non-integrated) capital asset and depreciation software package. We recommend that the Town complete the process of transitioning to one of these optional capital asset tracking systems to account for and monitor its physical assets and related depreciation.

Management's response:

During 2006, the Treasurer began converting the Town's capital asset records from Excel to Quickbooks. We will complete the conversion in 2007. While Quickbooks is not an integrated system, the Deputy Town Administrator and the Treasurer will develop procedures to require updating of Quickbooks when warrants are prepared. Town staff will work with Harpswell Community Broadcast Corporation to obtain the supporting documents required to capitalize fixed assets purchased with Town funds.